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To: Governor's Advisory Council on School Funding

From: Amy Carlson
Budget Analyst

RE: Removing HB124 block grants from district funds other than general fund and redistribution options for these state funds.

As discussed in the paper by Judy Paynter of the Department of Revenue at the October 4th meeting, HB 124 block grants were not considered by the legislature to be a permanent solution to replacing revenue lost to school districts from tax reductions and other changes incorporated in HB 124.

This paper lists some options for using the HB 124 block grant funds within the school funding formulas instead of block grants. HB 124 block grants are funded with state general fund. The options presented in this paper demonstrate the decrease in state expenditures from the removal of the block grants and the increase in state expenditures by the proposed redistribution through changes in the school funding mechanisms. The net impact to the state general fund will be zero.

These options are a compilation of ideas that were generated from either the Local Government Funding and Structure committee from last legislative interim or the Accounting Structure working group. The council may wish to pursue some of these options.

Note that this paper uses estimates available during the 2001 legislative session. The Office of Public Instruction is in the process of calculating the actual HB 124 block grants available to each fund.

Distribution of the HB 124 Block Grants

Table 1 on the following page outlines how the HB 124 block grants are anticipated to be distributed. The redistribution of the district general fund block grants was discussed

at the October 4th meeting. No discussion of redistribution of the district general fund block grant is presented in this paper.

District mill levy distributions of HB 124 block grants

All fund levies other than general fund will annually receive approximately \$13.3 million of the district HB124 block grant. The block grants to the other district fund mill levies are distributed as follows, approximately 1/3 to district transportation, 1/3 to debt service levies and 1/4 to building reserve and bus depreciation and the remaining 6% to tuition and adult education levies.

| |
|-------------------------------------|
| Estimated HB124 Block Grants |
| Table 1 |

| Fund | Block Grant |
|------------------------------------|-------------|
| <u>School district mill levies</u> | |
| General fund | \$43.6 |
| Debt Service | 4.6 |
| Building Reserve | 2.4 |
| Bus Depreciation | 1.2 |
| District Transportation | 4.3 |
| Adult Education and Tuition | 0.8 |
| <u>County mill levies</u> | |
| County Retirement | \$11.0 |
| County Transportation | 1.8 |
| Total | \$69.7 |

County transportation and retirement

County school funds receive block grants directly from HB124. County transportation receives \$1.8 million and county retirement receives \$11.0 million.

Options for Redistribution of HB 124 block grants

The following reviews each of the school county and district mill levies and gives options for how the state may be able to distribute the revenue from the HB 124 block grants back to the funds from which they came using school funding formulas.

Debt service (capital projects)

Debt service levies currently receive approximately \$4.6 million of the HB124 block grant. Debt service levies fund school bond payments. All debt service mill levies should currently receive HB 124 block grants.

The state maintains a guaranteed tax base (GTB) equalization program for the debt service fund, which could be used as a mechanism for redistributing HB 124 block grants. The guarantee level is established by an entitlement amount per student and a 121% of the average taxable value per student. The FY 2003 level of state funding of debt service GTB is \$4.7 million. Only payments on bonds issued after July 1, 1991 are eligible to receive the debt service GTB. 59% of district bond payments are issued after July 1, 1991 and are currently eligible for the GTB calculation.

Options for redistribution of the \$4.6 million block grants:

- 1) Allow all debt service mill levies to be eligible, regardless of the date the bonds were issued. All debt service levies are currently receiving HB 124 block grants and allowing all debt service mill levies to be eligible if the district qualified for GTB aid would be appropriate. The anticipated cost for this proposal is about \$2.3 million and would leave another \$2.3 million remaining for redistribution.
- 2) Increase the entitlements per student. This option would allow district payments to be higher than the current per student level to have a greater share of their payments eligible for state participation. This proposal would tend to benefit small districts more than large, as small districts tend to have higher per student bond issues.
- 3) Increasing the state guarantee level from 121% of the average taxable value per student to a higher level. This option would benefit all districts that have taxable values per student below the new guarantee level.
- 4) Combine this entitlement in to a broader concept of state capital funding with the building reserve, bus depreciation funds, and technology fund. This concept may be part of the Fund Structure working group recommendation and is discussed further under the heading Building reserve, bus depreciation, and technology (capital projects).

Building reserve, bus depreciation, and technology (capital projects)

These three funds can be considered capital project funds: bus depreciation, building reserve, and technology funds. The technology fund was established July 1 of this year and as a result, there were no technology fund levies in FY 2001 and no associated HB 124 block grant revenue. The building reserve levies will receive approximately \$2.4 million in block grants, while bus depreciation levies will receive approximately \$1.2 million.

The state currently provides no equalization or guarantee to districts for these funds. Capital funding may be an area that will cause equity concerns. The state may wish to create a funding mechanism to provide some equity funding for capital.

Options for redistribution of the \$3.6 million block grants:

- 1) Create a program of providing state assistance for voter approved capital projects funded with mill levies. This could be in combination with the debt service GTB program discussed above. If a combination of all the capital funds were the chosen option, a total of \$12.9 million would be available for the combined program (\$4.7 million from current program, \$4.6 million from debt service block grants and \$3.6 million from capital project block grants). The advantage of creating a consolidated capital project program is it would not

create a new program but expand an existing program. The disadvantage is it may create a new obligation for the state in an area that has been solely a locally supported.

- 2) Create a new program for funding capital projects not combined with debt service. Again this may create a new state obligation.
- 3) Increase aid in another program such as debt service GTB aid, general fund, or transportation. The advantage of this is that no new programs or potentially new areas of state obligation are created. This option would require careful structuring to insure that districts currently receiving debt service GTB continued to receive that revenue, as bond issues were passed by the voters with that program as a piece of the funding.

Adult Education and Tuition

An option for the small amount of HB 124 block grants that go to Adult Education levies would be to expand the current OPI grant amounts and expand the criteria to insure that small districts could qualify for funding.

Tuition receives a very small amount of revenue and there appears to be no simple way to get this revenue back to the tuition levies. This small amount could be added to either the general fund or the capital fund redistribution amounts.

Transportation, county and district

The transportation fund receives revenue from both county and district levies. Each of these levies receives HB124 block grants. The district levies are anticipated to receive \$4.3 million and county levies are scheduled to receive \$1.8 million in block grants for a total of \$6.1 million.

Unlike the general fund GTB formula, the transportation formula has no automatic increase in GTB aid in response to a decrease in non-levy revenue. The entire \$6.1 million could be used to increase the state share of transportation costs from the current 25% to about 40%.

Because the Council is already considering changes in the transportation formula, no specific options are provided.

Retirement

County retirement levies will receive \$11.0 million from the HB 124 block grants.

County retirement levies receive state guaranteed tax base aid to provide equity between county levies. Currently the state guarantees that the county mills will be equalized up to the 121% of the statewide average taxable value per student with an annual cost of approximately \$20 million. Like the district general fund GTB, the cost for county GTB increases when the non-levy revenue sources decrease. This increased cost to the state GTB resulting from the removal of the HB 124 block grants is expected to be \$2.3 million.

Options for redistributing \$8.7 million of retirement block grants

- 1) Increase the percentage of guarantee to counties from 121% to about 142% of

the average taxable value per ANB. Under current law, the maximum high school retirement mills is 38 and for elementary is 33. If HB 124 block grants were removed and GTB increased to 142%, then maximum high school retirement mills would be 36 and for elementary would be 30. This option would provide greater tax equity, but leave intact a separate retirement fund.

- 2) Combine the retirement fund with the general fund. This option works well with the countywide equalization levy of the BASE budgets as presented in a separate report for the November 1 meeting. This option could provide a high level of tax equity and eliminate one unnecessary fund.

Conclusion

All options for redistributing HB 124 block grant revenue back to districts will create districts that receive more state general fund and districts that receive less. Transfers may also occur between funds of districts, some funds may receive more state revenue and some funds may receive less. In options there will be winners and losers. Some taxpayers will pay more and some will pay less than under current block grant payments.

As a whole, distributing this revenue through a school funding mechanism instead of the block grants will be a more stable and equitable method of school funding for the long term.

Summary Options

| | <u>HB 124 BG</u> | <u>Uses</u> |
|---|------------------|--|
| Debt Service | \$4.6 million | |
| <ul style="list-style-type: none"> • Allow debt service before 1991 qualify • Increase guarantee percentage • Increase entitlement amounts • Combine with other capital funds | | \$2.3 million up to \$2.3 million up to \$2.3 million up to \$2.3 million |
| Building Reserve, Bus Depreciation | \$3.6 million | |
| <ul style="list-style-type: none"> • Create new program to distribute • Combine with Debt service program • Distribute to another program such as debt service or transportation | | \$3.6 million \$3.6 million \$3.6 million |
| Adult Education | \$0.5 million | |
| <ul style="list-style-type: none"> • Add to current state grant awarded through OPI | | \$0.5 million |

| | <u>HB 124 BG</u> | <u>Uses</u> |
|--|------------------|---|
| Tuition | \$0.2 million | |
| <ul style="list-style-type: none"> • Add block grant amount to general fund distribution • Add to capital fund distribution | | \$0.2 million \$0.2 million |
| Transportation | \$6.1 million | |
| <ul style="list-style-type: none"> • Increase state percentage of on schedule rates • Change Transportation funding and include this in revenue available | | \$6.1 million \$6.1 million |
| Retirement | \$11.0 million | |
| <ul style="list-style-type: none"> • Backfill lost non-levy revenue • Increase the GTB percentage from 121% to 142% • Combine the Retirement fund with the General fund | | \$2.3 million \$8.7 million \$8.7 million |